

## Written evidence submitted by RAND Europe

### Summary

Economic security is increasingly recognised as a key element of national security. To this end, RAND Europe has collected evidence from both our previous work, as well as outside experts, to respond to several of the questions in this inquiry. In particular, this response first examines the need to create a clear definition for economic security and proposes one based on existing frameworks in this area. [Question 1]. It then looks at HMG's overall approach and how it can be strengthened [Question 2]. Finally, it explores the opportunities offered by international cooperation, and the importance of a diverse array of alliances and partnerships to further the UK's policy goals [Question 3].

### Policy recommendations:

- The UK, along with a number of other partner states, currently lacks a clear and unified definition of economic security. This is prohibitive to the effective articulation of the full range of economic security policy for Government, as well as coordination of roles and responsibilities across the community of interest.
- Based on a cross-referencing of multilateral and partner definitions, we propose that the UK could adopt the following definition of economic security to guide policy formulation:
  - *“The use of economic levers and tools to protect the UK's national security, enhance its prosperity, and further its national interests.”*
- The UK has at its disposal a wide range of policy measures with which to enact a proactive and wide-ranging economic security policy in alignment with allies and partners. Mapping and defining areas of technological advantage within the industrial base could be a formative aspect of this, for example.
- The complete articulation of a well-defined economic security policy should be considered in concert with international partners and allies, notwithstanding aspects of risk in this approach.

### Introduction to RAND

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<sup>1</sup> Joint Committee on the National Security Strategy (2023).

- **Question 1:** How best to define ‘economic security’, and the extent to which an overarching policy framework is possible (or desirable);
- **Question 2:** The effectiveness of the Government’s overall approach to economic security, including key policy frameworks, governance and resourcing;
- **Question 3:** The opportunities and risks offered by international cooperation in ensuring the UK’s economic security, both bilateral (the recent Atlantic Declaration and the Hiroshima Accord) and multilateral (e.g. the G7 and the EU), and any potential obstacles to implementing them effectively.

**Question 1: How best to define ‘economic security’ and the extent to which an overarching policy framework is possible (or desirable)**

**1. Though there is an increasing interest in economic security across both national governments and international bodies, the area remains largely ill-defined.** While common areas of activity can be discerned from policy documents, these represent the ‘ways’ and ‘means’ by which economic security can be achieved, rather than a comprehensive understanding of the desired ‘ends’. This therefore leaves significant gaps in designing effective policies: For example, when thinking about how to prioritise different efforts, addressing of new or emerging areas of concern, or coordinating the efforts of the large number of stakeholders who play a key role in economic security. It also means, as we will show below, that economic security policy is often reacting to perceived risks, rather than proactively seeking to create opportunities. We believe that a key step towards designing an overarching policy framework is identifying a comprehensive definition of economic security to focus policy on the desired ends in order to coordinate policies and decision-making across the community of interest.

**2. Economic security is a key consideration for countries today, particularly in an age of increasing state-on-state competition.** Its importance has been increasing in recent years, both within the national security community, as well as in broader policy and academic circles.<sup>2</sup> RAND research demonstrates how economic levers play a key role in states’ ‘grey zone’ or ‘sub-threshold’ activities, working to achieve strategic outcomes without triggering activities above the threshold of armed conflict or war.<sup>3</sup> Further, our research has also found that economic variables such as inequality, supply chain resilience, and unemployment play a key role in societal resilience, another term that has found increasing use with policy makers.<sup>4</sup> In recent years, a number of states have strengthened their existing policies in areas frequently defined as constituting economic security.<sup>5</sup> As this section will explore in more detail, this includes industrial policies, inbound foreign direct investment screening, export controls, cybersecurity and data protection, addressing economic coercion, as well as economic sanctions and supply chain resilience.<sup>6</sup>

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<sup>2</sup> Retter, et al. (2020).

<sup>3</sup> Black, et al. (2020); Le Gargasson & Black (2023).

<sup>4</sup> Caves, et al. (2021).

<sup>5</sup> Ghiretti (2023).

<sup>6</sup> Le Gargasson & Black, (2023); Lucas & Wilkinson (2023); Lucas & Taylor (2021); Villalobos, et al. (2022); O’Connell, et al (2021); European Parliament (2023); Donovan, et al. (2023); Ghiretti (2023); Benson & Mouradian (2023).

<sup>6</sup> European Commission (2023a)

**3. However, despite extensive discussion of economic security in policy documents as set out in the UK and its allies and partners, few of these documents contain a definition of economic security policy and its goals.** In the NATO Strategic Concept, as well as the recent G7 leaders' statement on Economic Resilience and Economic Security, neither organisation offers a clear explanation as to what the goals of an economic security policy might be.<sup>7</sup> HMG is among those who have not yet clearly defined the policy area, despite recognising its importance.<sup>8</sup> Despite including significantly more discussion about economic security than its predecessor,<sup>9</sup> the Integrated Review Refresh (IRR) still fails to provide a comprehensive definition.<sup>10</sup> For the numerous stakeholders across HMG who also claim an interest in economic security, there is a similar focus on defining actions and priorities before establishing a firm understanding of what economic security fundamentally is.<sup>11</sup> The US takes a similar approach, focusing on an economic security agenda laid out by US National Security Advisor Jake Sullivan.<sup>12</sup>

**4. As mentioned above, it is possible to triangulate across these approaches to policy areas that repeatedly fall within the umbrella of 'economic security'.** The table below explores the priorities identified across a sample of different policy documents.

Policy Document	Policy Areas Identified
The UK's Integrated Review Refresh 2023	<p>The 2023 IRR expands on four priorities for economic security:</p> <ol style="list-style-type: none"> <li>1. Deterring economically hostile foreign actors through the Economic Deterrence Initiative;</li> <li>2. Support the capabilities, supply chains and technologies that are strategically important for the UK, notably with the UK semiconductor strategy, the future UK Supply Chains and Import Strategy, and via international partnerships;</li> <li>3. Protecting infrastructure and intellectual property through government bodies such as the National Protective Security Agency and enhanced government-private sector interactions with the Economic Security Private-Public Forum; and,</li> <li>4. Enhancing global supply chain resilience via the G7 or the new UK-Canada Critical Minerals Supply Chain Dialogue, in part to address economic coercion.<sup>13</sup></li> </ol>
NATO Strategic	The NATO Strategic Concept does not specifically use the

<sup>7</sup> NATO (2022); G7 2023 Hiroshima Summit (2023); Goodman (2023).

<sup>8</sup> Cabinet Office (2023).

<sup>9</sup> The 2021 Integrated Review only uses the phrase 'economic security' twice: once in discussion of the threat posed by China and once regarding the cross-department Defending Democracy programme which also included national resilience, cyber security, and key communications for national security. Cabinet Office (2023); Cabinet Office (2021).

<sup>10</sup> Cabinet Office (2023).

<sup>11</sup> See response to Question 3 for more discussion of the various stakeholders involved across UK government.

<sup>12</sup> Benson & Mouradian (2023).

<sup>13</sup> Cabinet Office (2023).

Concept	<p>phrase ‘economic security’; however it discusses the following:</p> <ol style="list-style-type: none"> <li>1. Risks created by ‘economic, energy, information and other hybrid tactics by state and non-state actors’;</li> <li>2. The way in which malicious actors may ‘employ economic coercion’; and,</li> <li>3. China’s use of ‘economic leverage to create strategic dependencies and enhance its influence’.<sup>14</sup></li> </ol>
G7 Leaders’ Statement on Economic Resilience and Economic Security	<p>The statement, the first to explicitly discuss economic security, describes seven characteristics of economic resilience and security:</p> <ol style="list-style-type: none"> <li>1. ‘Building resilient supply chains;</li> <li>2. Enhancing security and resiliency in critical infrastructure particularly in the digital domain;</li> <li>3. Responding to non-market policies and practices to secure global economic resilience;</li> <li>4. Addressing economic coercion to explore coordinated responses, deter and, counter economic coercion;</li> <li>5. Countering harmful practices in the digital sphere;</li> <li>6. Cooperating on international standards setting;</li> <li>7. Preventing leakage of critical and emerging technologies.’<sup>15</sup></li> </ol>
European Economic Security Strategy	<p>The European economic security strategy focuses on the following three priorities:</p> <ol style="list-style-type: none"> <li>1. ‘Promoting our own competitiveness by making our economy and supply chains more resilient, bolstering innovation and industrial capacity...;</li> <li>2. Protecting ourselves from commonly identified economic security risks...;</li> <li>3. Partnering with countries who share our concerns on economic security as well as those who have common interests and are willing to cooperate with us.’<sup>16</sup></li> </ol>

**5. Based on the above descriptions, it is possible to define a number of areas that clearly fall under the umbrella of economic security**, namely industrial policy, critical technologies and intellectual property protection, infrastructure resilience, supply chains, and responding to economic coercion and leverage.<sup>17</sup> Of note, a lot of the areas of policy activity in these documents (with the

<sup>14</sup> NATO (2022).

<sup>15</sup> G7 2023 Hiroshima Summit (2023); Goodman (2023).

<sup>16</sup> European Union (2023).

<sup>17</sup> European Parliament (2023); Cabinet Office (2023); Goodman (2023); G7 2023 Hiroshima Summit (2023); NATO (2022).

notable exception of the European Commission) are reacting to perceived risks, focused on mitigating the impact of adversary behaviour. This fits with the observation made above that current approaches to economic security neglect the proactive ways by which countries can further their own interests by using economic levers and policies.

**6. Despite this general trend, there are examples of countries that have clearly defined economic security to coordinate and guide their policies,** as shown in the table below. Of note, these definitions are also accompanied by more detailed action plans and specific policy objectives.

Policy document	Definition of economic security
Japan's National Security Strategy	The 2022 National Security Strategy defines the purpose of economic security as 'to ensure Japan's national interests, such as peace, security, and economic prosperity, by carrying out economic measures.' <sup>18</sup>
The Security Strategy for the Kingdom of the Netherlands	Economic security is defined as 'the unimpeded functioning of the Kingdom of the Netherlands as an effective and efficient economy'. <sup>19</sup>
Republic of Korea National Security Strategy	In its 2023 National Security Strategy, South Korea defines economic security as 'a state in which national security is maintained and economic activities are unhindered by ensuring the smooth inflow of essential items for the nation's economic activities and preventing inappropriate outflow, regardless of domestic and international variables'. <sup>20</sup>

**7. Based on these findings, as well as previous RAND Europe research in this area, we would propose that economic security be defined as:** *the use of economic levers and tools to protect the UK's national security, enhance its prosperity, and further its national interests.* While this is a broad definition, we believe that this allows for all of the diverse activities discussed above to be included, as well as policy areas that will emerge in the coming years. Further, we believe that this definition describes the current activities ongoing, rather than requiring any adjustment to current policies. However, to mitigate this, we believe that HMG should work together to create a comprehensive list of the types of policies that fall within the remit of economic security in order to coordinate efforts. Such coordination will be further discussed in our answer to Question 3.

**8. We believe that a clear definition of economic security is necessary for defining the desired aims and goals of a comprehensive economic security policy.** As will be explored further in our response to Question 3, the sheer number of stakeholders, underscore the importance of a single definition in coordinating and cohering efforts in this area. HMG must manage stakeholders to enact and enforce the underpinning policies, both within Whitehall and across society at large.

<sup>18</sup> Cabinet Secretariat (2022).

<sup>19</sup> Kingdom of the Netherlands (2022).

<sup>20</sup> Office of the President of the Republic of Korea (2023).

Furthermore, due to the nature of the global economy, economic security policies are increasingly designed, implemented and coordinated by coalitions of states to increase their impact.<sup>21</sup> These efforts too will require clear goals to guide the underlying policies. The UK therefore has an opportunity to be a leader here in clearly defining and enacting a proactive economic security agenda, guided by a comprehensive definition.

**Question 2. The effectiveness of the Government's overall approach to economic security, including key policy frameworks, governance and resourcing**

**9. Given the wide-ranging nature of these topics, as well as their diversity, there are numerous stakeholders across HMG who share responsibility for economic security.** With work going on across Whitehall, the Cabinet Office clearly plays a critical leadership role. In addition to the number of coordination bodies and initiatives discussed in the IRR, the Defence Command Paper<sup>22</sup> and the Responsibilities of the Department for Business and Trade<sup>23</sup> both explicitly identify economic security as being part of their Department mandates. Further, the Home Office talks about protection of economic prosperity as one of its key objectives<sup>24</sup> and the Foreign, Commonwealth and Development Office (FCDO) frequently includes it as part of their area of responsibilities for various areas of the world. This is even true for specific areas of policy: The UK's sanction apparatus, for example, is scattered across the FCDO, His Majesty's Treasury, and DBT.<sup>25</sup>

**10. In addition to government stakeholders, the IRR also correctly identifies the importance of private sector stakeholders in economic security policy.** HMG is taking positive steps towards this in areas including the establishment of the Economic Security Private-Public Forum or the work conducted by the National Protective Security Agency.<sup>26</sup> This is particularly critical as the UK lacks mechanisms for compelling private industry, even in times of war, and therefore is reliant on their active and willing support in security matters.<sup>27</sup> It will be critical to maintain the allocation for funding and resource for such efforts, not least including the time dedicated by government officials, in order to ensure their efficacy.

**11. To be clear, for complex policy areas such as economic security, whole-of-government and whole-of-society collaboration is a necessity.** However, deconflicting and cohering all of these efforts and actors to ensure that they interact in a positive and mutually reinforcing manner is nonetheless a considerable challenge. As argued in our response to Question 1, identifying a clear definition of economic security and set of desired aims and goals for economic security policies is a key first step.

**12. As discussed in Question 1, we believe another important line of effort will be designing an evolving list of policy areas or activities that fall under the heading of economic security.**

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<sup>21</sup> Donovan, et al. (2023).

<sup>22</sup> Ministry of Defence (2023).

<sup>23</sup> Department for Business and Trade (N.d)

<sup>24</sup> Home Office (2021).

<sup>25</sup> HM Treasury (N.d); Foreign, Commonwealth & Development Office (2024).

<sup>26</sup> Cabinet Office (2023); Caves, et al (2021).

<sup>27</sup> Examples of mechanisms for compelling industry include the US' Defense Production Act and Swedish government powers to compel industry to participate in measures related to Total Defense. See Caves, et al. (2021).

This could be a useful tool in ensuring that efforts across government are coordinated and deconflicted. One method for this might be regular meetings that convene all of the key stakeholders to discuss key policies that have been implemented in recent months. Another might be assigning clear roles and responsibilities to different government departments based on their areas of expertise. Finally, HMG might wish to ensure that appropriate individuals and organisations are represented in decision-making bodies, as is the case for the US' Committee on Foreign Investment in the United States (CFIUS).<sup>28</sup> The cross-referencing of different policy documents provided in response to Question 1 provides one starting point for this type of list; however, discussions with academia, industry, and other subject matter experts may shed further light on areas that need to be included.

**13. Additionally, it will be important to recognise the importance of proactive economic security policies.** As noted in our responses to Questions 1, much of the discussion of economic security in key policy documents is reactive, responding to threats or risks. Additionally, there is a great deal of focus on restrictive or punitive measures, such as sanctions, export controls, or investment screening. Such measures are important for diminishing the risk posed by hostile actors. However, economic security policy represents an opportunity for countries like the UK to strengthen, not only their economic position, but their geostrategic position as well.

**14. Using dependencies to gain leverage over other states is a clear example of proactive economic security policy.** When a country gains control over a key node of the global supply chains, it can control access to those assets.<sup>29</sup> Countries such as Russia and China have used their dominance in exporting critical and rare earth minerals in an effort to achieve their policy aims.<sup>30</sup> Particular areas of technological expertise are another potential leverage point: for example, the US' efforts to use its control over intellectual property critical to semiconductor manufacturing to restrict Chinese access to semiconductors.<sup>31</sup> Identifying key dependencies or investing in certain technologies could therefore enable the UK to optimise its position in global networks, and thus becomes an area of positive economic security policy.<sup>32</sup>

**15. Additionally, countries can strengthen their own economic resilience to deter economic coercion.** Deterrence by denial requires decreasing the benefit of an adversary's activity while increasing the level of effort they must invest in order to have an impact.<sup>33</sup> As identified in the UK's Integrated Operating Concept, 'assuring societal resilience constitutes deterrence by denial...renewed focus on the resilience, readiness and responsiveness...enables us to withstand shocks'.<sup>34</sup> Similarly, a demonstrably resilient economy lessens the impact of shocks or intentional attacks, also lessening the risks associated with other countries efforts to attack the UK's economic

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<sup>28</sup> U.S. Department of Treasury (N.d). While CFIUS itself falls under the purview of the Department of Treasury, it is an interagency body, with representatives from across different Cabinet Departments (including the Departments of Homeland Security, Defense, Justice, Commerce, Energy, and State) as well as the US intelligence community and the White House.

<sup>29</sup> Farrell & Newman (2019).

<sup>30</sup> Retter, et al. (2020).

<sup>31</sup> Sheehan (2022).

<sup>32</sup> Mazarr, et al. (2022); Lucas & Wilkinson (2023). Gherke and Ringhof (2023) also make the case for identifying such technological edges in the case of the European Union.

<sup>33</sup> Mazarr (2018).

<sup>34</sup> Ministry of Defence (2021) in Caves, et al. (2021).

well-being. This might make it both less likely that another country will try to use economic tactics to attack the UK, as well as decreasing the impact if such tactics are used. In addition to domestic resilience, experts have proposed the importance of collective resilience in the international space to enhance the ability of the UK and its allies to respond to economic coercion.<sup>35</sup>

**16. Finally, in addition to holding countries at risk, the UK can use positive economic incentives to further its economic security among the international community.** Benefits such as official international assistance or humanitarian aid, development finance, access to currency, trade, preferential tariffs, subsidies, or preferential partnerships all represent economic tools that the UK can leverage to reward and incentivise international partners.<sup>36</sup> Supporting uniform and beneficial international standards, as recognised in the G7 Statement, is another area where positive collaboration can prove beneficial to economic security.<sup>37</sup>

**17. Proactively taking advantage of all areas of economic security, however, requires collaboration and coordination to identify and act on potential areas of opportunity.** Further, using evidence-based frameworks to evaluate and continuously improve existing economic policies and ensure that they contribute to the UK's overall objectives, is an important aspect of implementation. To this end, there are key tools in the private sector and academia that government can draw on: for example, RAND has developed a number of tools and methodologies for identifying possible areas of technological advantage that the UK could potentially exploit.<sup>38</sup> Other organisations specialise in mapping supply chains or streamlining insurance and reinsurance policies that can promote economic resilience.<sup>39</sup>

**Question 3. The opportunities and risks offered by international cooperation in ensuring the UK's economic security, both bilateral (the recent Atlantic Declaration and the Hiroshima Accord) and multilateral (e.g. the G7 and the EU), and any potential obstacles to implementing them effectively.**

**18. International cooperation offers important opportunities in the field of economic security.** Coordination with like-minded countries is also essential when implementing policies such as sanctions and export controls.<sup>40</sup> Diversification of suppliers, as well as identifying trusted suppliers ('friend shoring'), can also help build greater resilience and balance against competitors.<sup>41</sup> Finally, as discussed in our response to Question 3, collective resilience can enhance the ability of countries as a group to deter economic coercion.<sup>42</sup> With its recent statement on economic security, the G7 is positioning itself to become a key platform of cooperation among western allies, and building multilateral economic statecraft with allies can provide greater coordination, alignment,

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<sup>35</sup> Cha (2023); Frederick & Shatz (2018).

<sup>36</sup> Donovan, et al. (2023).

<sup>37</sup> G7 2023 Hiroshima Summit (2023); Goodman (2023); Sheehan & Feldgoise (2023).

<sup>38</sup> RAND Europe has a number of ongoing projects implementing novel methods for understanding and prioritising the strategic advantage conferred by different technologies. Please inquire with the authors for details.

<sup>39</sup> For example, see the implementation and continuous refinement of the UK's PoolRe scheme to provide resilience for losses incurred due to terrorism, or Flood Re to provide similar benefits in the wake of flooding. OECD (N.d); Browning (2023).

<sup>40</sup> Donovan, et al. (2023).

<sup>41</sup> Ellerbeck (2023).

<sup>42</sup> Cha (2023); Frederick & Shatz (2018).



and deterrence potential.<sup>43</sup> However, the UK also should pursue opportunities with other large international organisations, as well as more targeted bilateral and multilateral arrangements, to pursue its economic security objectives.

**19. The UK has at its disposal three types of agreements through which it can strengthen international cooperation on economic security.** Firstly, the UK can use established international organisations to enhance its economic security. Examples of such include recent steps taken through fora such as the G7 and NATO to recognise the importance of economic security and begin to identify areas for policy action.

**20. Bilateral cooperation is another key means of pursuing the UK's economic security objectives.** Recent advances such as the Hiroshima Accord,<sup>44</sup> the Atlantic Declaration,<sup>45</sup> the UK-Canada Critical Minerals Supply Chain Dialogue,<sup>46</sup> the UK-Taiwan Enhance Trade Partnership,<sup>47</sup> or the UK-Japan Economic Security Dialogue,<sup>48</sup> all aim strengthen the UK's economic security cooperation with like-minded partners. Such bilateral arrangements often lend themselves to more targeted objectives where the UK and its partners or allies share a common interest or aim.

**21. In addition to preexisting international organisations and bilateral arrangements, the UK can pursue a middle ground to form more targeted coalitions to pursue shared, targeted aims.** Often referred to as 'minilaterals', experts describe such arrangements as 'nimble, pragmatic coalitions that overcome multilateral paralysis while avoiding more formal alliances.'<sup>49</sup> Such coalitions form a middle ground, with more robust policy options than bilateral cooperation and more flexibility than a large international organisation. They can also cut across traditional alliances and geographical areas, creating opportunities to form coalitions outside of formal, preexisting blocs.<sup>50</sup> The UK's willingness to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, as well as its participation in AUKUS, are both good examples of targeted agreements which be used to provide the UK with partners as it seeks to enhance its economic security with regards to the Indo-Pacific.<sup>51</sup>

**22. International cooperation also offers good practices that the UK can emulate, as well as lessons that it can take into account as it seeks to strengthen its own economic security policy.** As discussed in our response to Question 1, examples of comprehensive economic security policies from other countries including Japan, South Korea and the Netherlands, can be used to help the UK think about how it might phrase its own policies.<sup>52</sup> Aligning policies and definitions can help to cohere efforts between international partners; similarly, the UK can learn from approaches that may not have worked so well in other countries. International cooperation therefore offers an important

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<sup>43</sup> Ikenberry (2023); G7 2023 Hiroshima Summit (2023).

<sup>44</sup> Prime Minister's Office (2023).

<sup>45</sup> UK Government (2023a); The White House (2023).

<sup>46</sup> UK Government (2023b).

<sup>47</sup> Department for International Trade (2023).

<sup>48</sup> Nishino (2023).

<sup>49</sup> Theil (2023).

<sup>50</sup> Mohan (2023).

<sup>51</sup> British Embassy Santiago (2023).

<sup>52</sup> See Cabinet Secretariat (2022); Government of the Netherlands (2022); and Office of the President of the Republic of Korea (2023).

source of learning opportunities and guidance as the UK seeks to strengthen its economic security policies.

**23. However, international cooperation also carries certain risks that must be taken into account.** Despite close diplomatic or military ties, allies' interest may not always align with those of the UK. For example, the EU is an important ally and trading partner of the UK. However, the EU's new Anti-Coercion Instrument (ACI) is country agnostic and could be used against any country, including the UK.<sup>53</sup> This would enable the EU to impose tariffs and restrictions on procurements and foreign direct investments if a third country is perceived to be using economic coercion to interfere with EU political processes.<sup>54</sup> In defence industrial policy, US' International Traffic in Arms Regulations (ITAR) has long caused frustration to UK companies.<sup>55</sup> Understanding where interests are shared, and where they are not, as well as applying the same rigorous, evidence-based frameworks as are used for domestic economic security policies, is therefore a key element of effective international collaboration.

**24. Overall, international collaboration and cooperation offers support for key economic security objectives.** HMG has multiple options about how to pursue such collaboration, whether through large, preexisting groups of like-minded countries, or through more targeted or transactional relationships. As with domestic policies, RAND research emphasises the importance of consultation, including cost-benefit analysis, as well as consideration of unintended consequence, in order for HMG to selectively leverage cooperation in the areas where it can be most beneficial.

12 January 2024

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<sup>53</sup> Szyszczak (2022).

<sup>54</sup> European Commission (2023b).

<sup>55</sup> Cheverton (2023).

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